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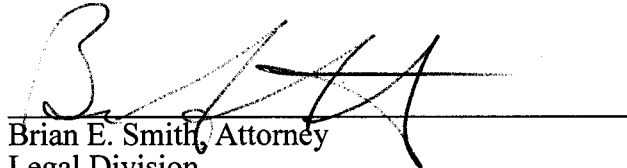
IN THE MATTER OF THE APPLICATION OF  
TONTO BASIN WATER CO., INC. FOR  
APPROVAL OF AN ADJUSTMENT IN THE  
EXISTING RATES CHARGED BY THE  
COMPANY.

DOCKET NO. W-03515A-14-0310

**NOTICE OF FILING  
STAFF'S DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of  
L. John Lesueur, in the above-captioned docket.

RESPECTFULLY SUBMITTED this 30<sup>th</sup> day of March, 2015.

  
Brian E. Smith, Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies of the  
foregoing filed this 30th day of March, 2015,  
with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007


Arizona Corporation Commission

DOCKETED

MAR 30 2015

Copy of the foregoing emailed/mailed  
this 30<sup>th</sup> day of March, 2015, to:

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*Monica A. Marj*

**BEFORE THE ARIZONA CORPORATION COMMISSION**

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
TONTO BASIN WATER CO., INC., AN )  
ARIZONA CORPORATION, FOR A )  
DETERMINATION OF THE FAIR VALUE OF )  
ITS UTILITY PLANTS AND PROPERTY AND )  
FOR INCREASES IN ITS WATER RATES AND )  
CHARGES FOR UTILITY SERVICE BASED )  
THEREON. )  
\_\_\_\_\_ )

DOCKET NO. W-03515A-14-0310

DIRECT

TESTIMONY

OF

L. JOHN LESUEUR

ASSISTANT DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 30, 2015

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**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is John LeSueur. I am employed by the Arizona Corporation Commission ("Commission") as an Assistant Director in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Please state your educational background.**

A. I graduated from the University of Texas School of Law in 2003 with a Juris Doctorate and from Brigham Young University in 2000 with a Bachelor's Degree in Economics.

**Q. Please describe your professional work experience.**

A. I am a member of the Arizona State Bar. From September 2003 through November 2006, I worked as an environment and natural resources attorney for Fennemore Craig. I worked on cases involving the Federal Clean Water Act, the Federal Safe Drinking Water Act, and Arizona's Underground Storage Tank Assurance Fund.

From January 2007 thru December 2012, I was employed by the Commission as a policy advisor to one of the five Commissioners. As policy advisor, I advised my Commissioner on all cases and legal matters pending before the Commission.

In January 2013, I began working in my current capacity as Assistant Division Director for the Utilities Division. In my current role, I review submissions that are assigned to the Utilities Division, make policy recommendations to the Director, and supervise Staff's preparation of testimony and Staff Reports that are submitted for the Commission's consideration.

1 **Q. What is the purpose of your testimony in this case?**

2 A. My purpose is to explain why Staff supports the adoption of the proposed settlement  
3 agreement ("Agreement"). My testimony will address the settlement process and provide an  
4 overview of the Agreement's provisions.  
5

6 **Q. Did you participate in the settlement discussions that resulted in the Agreement?**

7 A. Yes, I did.  
8

9 **Q. How is your testimony organized?**

10 A. My testimony has three sections. Section I is this introduction, Section II discusses the  
11 settlement process, and Section III provides an overview of the Agreement.  
12

13 **II. SETTLEMENT PROCESS**

14 **Q. Please describe the settlement process.**

15 A. On August 22, 2014, Tonto Basin Water Co., Inc. ("Tonto Basin" or "Company") filed an  
16 application to increase its rates and charges with the Commission. The four parties in this  
17 case are the Company, Staff, Brooke Utilities, Inc. and Tonto Creek Trail RV Park, Inc.  
18 Shortly after Staff filed its direct testimony in this case, the Company expressed interest in  
19 initiating settlement discussions as a potential means for resolving the disputed issues. On  
20 February 27, 2015, Staff filed a Notice of Settlement Discussions in this docket indicating that  
21 the parties may enter into settlement discussion beginning March 5, 2015. On March 9, 2015,  
22 a settlement conference was held at Staff's offices. The Agreement was a result of that  
23 meeting.  
24

25 **Q. How would you characterize the process?**

26 A. I would describe the process as transparent and productive.

1 **Q. Did intervenors Brooke Utilities, Inc. and Tonto Creek Trail RV Park, Inc. attend the**  
2 **March 9, 2015 settlement conference and participate in negotiating the Agreement?**

3 A. No, but they were welcomed to. Both received the notice of settlement discussions that was  
4 docketed on February 27, 2015. Staff heard from and informed Brooke Utilities, Inc. of the  
5 March 9, 2015, settlement conference. Staff has not heard from Tonto Creek Trail RV Park,  
6 Inc.

7  
8 **Q. Did intervenors Brooke Utilities, Inc. and Tonto Creek Trail RV Park, Inc. receive a**  
9 **copy of the Agreement and have an opportunity to sign on to it?**

10 A. Yes, and Staff is not aware that either of the intervenors oppose the Agreement. However,  
11 neither party has signed the Agreement to date.

12  
13 **III. AGREEMENT**

14 **Q. Please provide a quick overview of the disputed issues resolved in the Agreement.**

15 A. The settlement negotiations largely involved three categories of disputed issues: revenue  
16 requirement, Staff's engineering recommendations, and a potential water hauling tariff for  
17 Tonto Basin's Roosevelt Lake Estates system.

18  
19 **Q. Please describe Sections 1, 8 and 9 of the Agreement.**

20 A. These are boilerplate provisions that Staff routinely includes in the settlement agreements  
21 into which it enters. Section 1 contains the recitals of the Agreement and establishes the  
22 predicate circumstances. Section 8 sets forth the procedure for the Commission's eventual  
23 adoption, modification or rejection of the Agreement, as well as the parties' rights and  
24 responsibilities therefrom. Section 9 contains standard miscellaneous provisions.

25

1 **Q. Please describe Sections 2, 3 and 4 of the Agreement.**

2 A. These Sections are the backbone of the Agreement. Section 4 establishes a 10 percent cost of  
3 equity and rate of return for Tonto Basin. Tonto Basin's capital structure is comprised of 100  
4 percent common equity. Section 2 establishes the Company's fair value rate base at \$610,490,  
5 operating expenses at \$445,942, and revenue requirement at \$506,991. These figures result in  
6 an annual rate increase of \$199,816, or 65.05 percent, and provide operating income equal to  
7 \$61,049. Section 3 adopts Staff's proposed rate design, which would result in a 61.56 percent  
8 rate increase for a 5/8" x 3/4" meter residential customer with average usage of 5,598 gallons  
9 of \$15.96, from \$25.92 to \$41.88, and a 59.15 percent rate increase for a 5/8" x 3/4" meter  
10 residential customer with median usage of 3,205 gallons of \$12.40, from \$20.97 to \$33.37.  
11

12 **Q. Please describe Section 5.**

13 A. Section 5 addresses Staff's engineering recommendations. In Section 5.1, Tonto Basin agrees  
14 to complete painting its storage and pressure tanks (in the priority order identified by Staff)  
15 within 12 months of when the new rates go into effect. In Section 5.2, Tonto Basin agrees to  
16 seek an ADEQ inspection of its North Bay Estates water system and the adequacy of Tonto  
17 Basin's storage capacity and implement any recommendations made by ADEQ. Finally, in  
18 Section 5.3, Tonto Basin agrees to implement five best management practices ("BMPs") in its  
19 Cactus Forest system, which is located in an Active Management Area, and three BMPs for  
20 its other water systems, which are outside of any Active Management Areas.  
21

22 **Q. Please describe Section 6.**

23 A. In Section 6, the signatories agree to a procedural mechanism to enable the Commission an  
24 opportunity to transfer the Certificate of Convenience and Necessity associated with the  
25 Cactus Forest system to Tonto Basin, which appears to have been inadvertently omitted from  
26 Decision No. 60972. The signatories believe that any hearing necessary to resolve the CC&N



1 issue could be held concurrently or in close proximity with the hearing scheduled in this case  
2 on April 20, 2015, to facilitate administrative efficiency.

3  
4 **Q. Please describe Section 7.**

5 A. In Section 7, the signatories agree to a procedural mechanism for Commission consideration  
6 of a water hauling tariff for Tonto Basin's Roosevelt Lake Estates ("RLE") system should  
7 Tonto Basin determine that it is necessary to propose one. Staff has not committed to  
8 support the water hauling tariff if it is filed. Staff believes the merits of any such filing should  
9 be weighed at the time it is filed, but that it should be processed as part of this case if it is  
10 submitted within 6 months of a decision approving new rates being filed in this docket.

11  
12 **Q. Please describe Staff's understanding of the circumstances giving rise to Section 7.**

13 A. On Sunday morning, February 15, 2015, Tonto Basin sent a Stage 4 water conservation notice  
14 to customers in its RLE system due to insufficient well production. Customers were  
15 instructed to avoid outside watering or washing of boats or vehicles. On Monday afternoon,  
16 February 16, 2015, Tonto Basin shut the RLE system down until 8 AM the next morning to  
17 allow the storage tank to fill. The Company made drinking water available at the local Spring  
18 Creek store. The Company hired a well driller to deepen its well, but water production from  
19 the well did not improve much. On February 21, 2015, the Company began hauling water to  
20 the RLE system. On February 23, 2015, the Company asked if Staff would support  
21 instituting a water hauling tariff for the RLE system similar to the East Verde Park water  
22 hauling tariff that was approved in Payson Water Co., Inc.'s recent rate case, Docket No. W-  
23 03514A-13-0111. Staff informed the Company that Staff would need to know more about  
24 the cause of and circumstances surrounding the water supply shortage in the RLE system  
25 before supporting a water hauling tariff.

26 **Q. Was the Company successful in bringing a second well onto the RLE system?**

1 A. Yes. On March 19, 2015, the Company informed Staff that it was successful in bringing a  
2 second well online and that the RLE system was back to normal operations.

3  
4 **Q. Does Staff believe adoption of the Agreement is in the public interest?**

5 A. Yes.

6  
7 **Q. Does this conclude your direct testimony?**

8 A. Yes, it does.